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EDITOR'S PICK

Japan Cracks Down On Cryptocurrency Exchanges After \$534M Heist; Police Begin Investigation

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Since one of Asia's biggest digital currency exchanges admitted last week to being hacked out of \$534 million worth of the cryptocurrency, [NEM](#), the Japanese government has been quick to take action -- regulators ordered [Coincheck](#) to improve security, while the Tokyo Metropolitan Police Department (警視庁) launched a full-fledged investigation.



Coincheck appears to be the largest cryptocurrency heist ever, rivalled only by the [Mt. Gox](#), which was also based in Tokyo and closed down in February, 2014 after hackers stole the equivalent of \$400 million worth of bitcoin. The stolen Bitcoins were never recovered and the police were unable to find the culprits.

All of this has come at a time when Japan has been attempting to position itself at the epicenter of the cryptocurrency world. In April of 2017, the government made Bitcoin [legal tender](#). More than 30% of global Bitcoin transactions are conducted in Japanese yen. In September last year, the regulator -- the Financial Services Agency (FSA) -- started to officially recognize virtual currency exchanges that met their standard. There are now more than 15 registered virtual currency exchanges in Japan. Coincheck was in the process of applying to be a registered exchange but had been warned by the agency that its cybersecurity was poor and needed dramatic improvement.

More On Forbes: [Tracing Back Stolen Cryptocurrency \(XEM\) From Japan's Coincheck](#)

On January 29, just three days after the breach, the FSA issued Coincheck with a "business improvement order." The agency noted, "an unsuitable management system had become the norm at the firm," and requested that Coincheck do the following:

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- Determine the chain of events and cause of the hacking
 - Respond appropriately to customers affected, including compensation
 - Firm up the management system and make clear who was responsible for allowing the system to be breached

- Formulate a plan to improve the system and create valid countermeasures to prevent another similar incident

The FSA ordered the firm to turn in a full report, including their cybersecurity plans, by February 13. In addition, the agency has began examining all cryptocurrency exchange operators in Japan and will conduct on-site inspections if necessary.

Police probe

According to sources close to the Tokyo Metropolitan Police Department, who asked not to be identified, detectives met with Coincheck employees on January 29 and have started an investigation into potential violations of the law against hacking (不正アクセス禁止法違反容疑), theft and other charges. They have also started analysing NEM's public ledger, which shows all transactions.

Investigators suspect the hackers were able to create a falsely authorized ID, which allowed them to penetrate the system, starting at 2:57 am on January 26, and make massive withdrawals during an eight-hour period.

More On Forbes: *Coincheck Hack Could Be The World's Biggest Ever*

The Yomiuri Shimbun, Japan's largest newspaper, [reported on January 30](#), that the police had already determined that during the hack, the stolen NEMs were first sent to a particular address. From that address, the NEMs were then later sent to eight different addresses. The police are still following the virtual money, the report added.

The Tokyo Police declined to comment on the case.

Refunds

Coincheck have announced they would pay back all the NEM users who lost funds, which they estimate will cost them the equivalent of \$430 million dollars. They have not specified the timing or where they will procure the funds to do it. An estimated 260,000 users are affected, they say.

The popular press in Japan reported that a number of celebrities may also have lost money. The newly-formed cryptocurrency-themed all-girl band, [Virtual Currency Girls](#), even held an impromptu press conference in which they expressed dismay over the theft at Coincheck but also expressed their firm belief in the virtues of

cryptocurrency. One member even appealed to the hackers to give the stolen NEM back.



Jake Adelstein

The Virtual Currency Girls.

However, while it is very unlikely that the hackers will respond to this plea, some question whether Coincheck will be able to pay back their customers.

Mark Karpeles, CEO of Mt. Gox, wasn't optimistic, based on his own experience. In an email he noted, "For now Coincheck's challenge will be to survive -- their offer to refund everyone at their NEM rate may sound nice at first but it's likely many people will not agree. The rate they are using to calculate repayment is much lower than the NEM value at the theft time... There is no refund time frame currently set and [disgruntled customers] may sue the exchange, which will likely have to settle such lawsuits until it runs out of funds."

Coincheck could not be contacted for a response.